Quiz 2 Name:___________________________________

Microeconomics - EC 2106

Instructor: Robert McNab Score:________________

INSTRUCTIONS: Please answer all questions to the best of your ability within the allotted time of 15 minutes. You are required to show your work to receive credit. For multiple choice and true/false questions, please circle the appropriate answer. 10 possible points.

1. Which of the following statements is most accurate? 2 point

a. All else remaining equal, if supply increases and demand decreases, price will decline and quantity will increase.
b. All else remaining equal, if supply decreases and demand increases, price will increase and quantity will decrease.
c. All else remaining equal, if supply increases and demand increases, price will be ambiguous and quantity will decrease.
d. All else remaining equal, if supply decreases and demand decreases, price will be ambiguous and quantity will decrease.

2. Assume that Delta Airlines and United Airlines compete on the Atlanta to San Francisco route. Delta Airlines equilibrium price is $275 per ticket for 50,000 tickets sold per month. United Airlines equilibrium price is $270 per ticket for 12,5000 tickets sold per month. All else remaining equal, If fuel prices rose 5%, what would be the expected short-term impact on the market. Choose the most accurate answer. 2 point

a. Equilibrium price and quantity would decrease.
b. Equilibrium price would increase and quantity would decrease.
c. Equilibrium price would decrease and quantity would decrease.
d. Equilibrium price and quantity would increase.

3. You have been hired as an economist for the Congressional Research Office and your first assignment is to research the impact of foreign competition on United State's steel producers. policies. Currently, the domestic price for steel is $2.25 per pound with 2.5 billion pounds sold annually. The steel producers are arguing for a minimum price of $4.00 per pound since they believe that foreign producers are unfairly dumping steel products in the United States, thereby reducing prices below their normal level. In the space provided below, explain and then illustrate, the impact of this proposed policy on the steel market. 6 points.

Answer Key

1. D
2. B
3. A minimum price of $4 would in effect establish a price floor above the equilibrium price. Establishing a price floor above the equilibrium price would result in quantity supplied being greater than quantity demanded, creating a surplus in the market. The market could not correct to the equilibrium price and quantity due to the minimum legal price.